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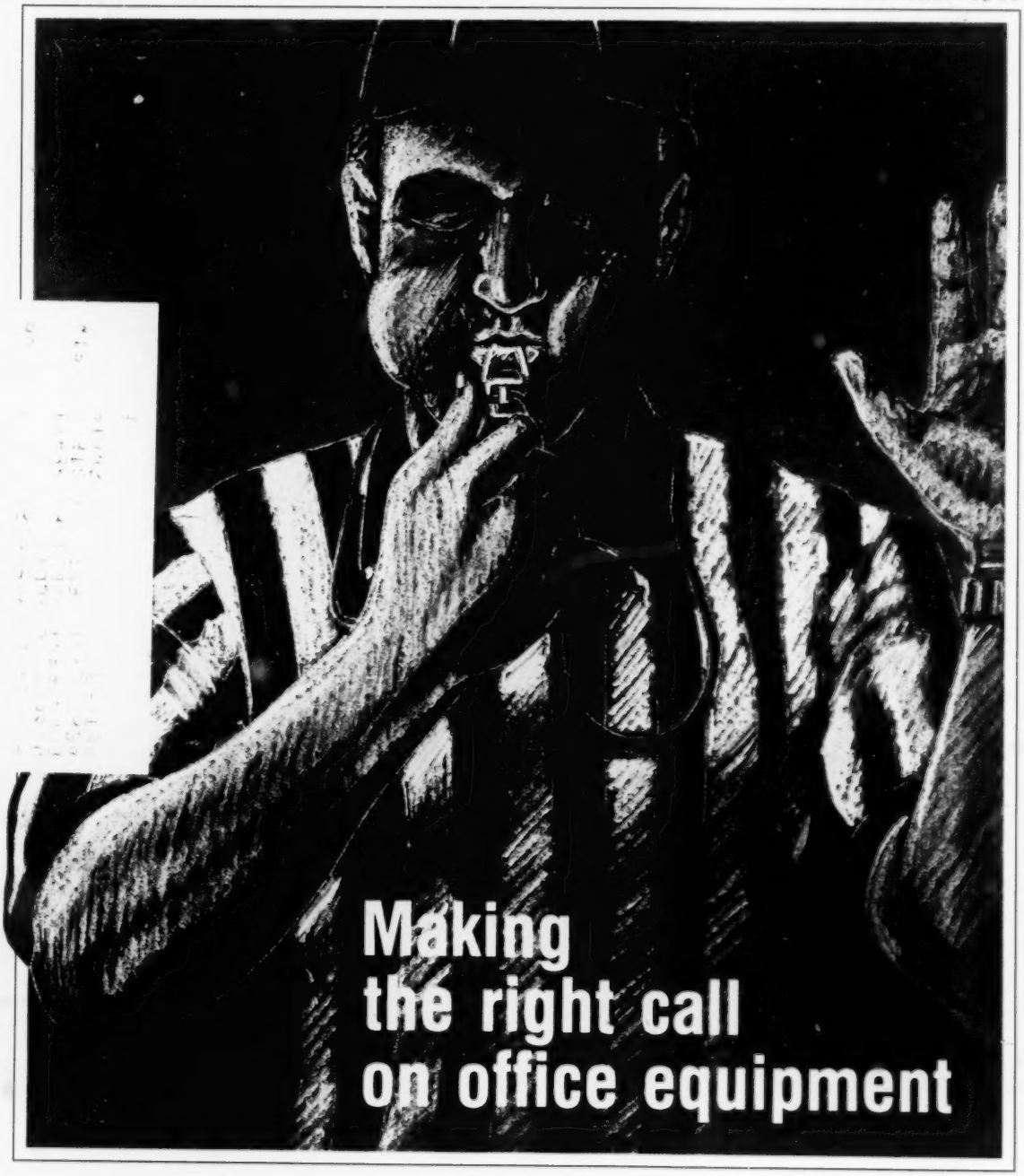
PURCHASINGWORLD VOL. 32, NO. 10, OCTOBER 1988 office equipment • Education • Public Issues

PurchasingWorld®

THE BUYER'S MAGAZINE

OCTOBER 1988



Making the right call on office equipment

PW's buyer's guide to office equipment

Education: Books boast career choices • Saving taxpayers' money

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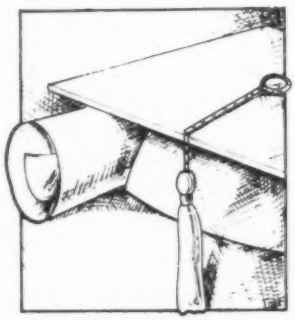

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Cover Illustration and Design by Andy Shive.

California? RPS is in operation there now

RPS (The Roadway Package System) is now providing coast-to-coast small package surface delivery following the opening of its Los Angeles hub facility. Shortly, RPS will have 23 more new terminals operational in the western United States and California.

In business just three years, RPS is now doing $150,000,000 in sales and has a 9% market share in those areas served both by RPS and UPS. **Circle 263**

Third party testing can reduce problems for industrial purchasers

Founded in 1896 by the Edison Illuminating Companies as the first lamp testing lab in the United States, ETL Testing Laboratories, Inc., today offers product and safety performance testing, listing, labeling, follow-up and certification services around the world. ETL claims to administer more third-party certification programs than any other independent testing organization. **Circle 298**

Symbols directory makes fastener tracing possible

Fastener product traceability and hence supplier accountability, in the event of product failure and/or noncompliance with the spec, is made easier by using the 22-page directory of head marking symbols chosen by over 400 North American fastener supply sources.

Source marking promotes quality assurance since the fastener supplier knows that by affixing its mark to the product, it will be held accountable for failure or lack of conformity. Fastener buyers should carefully scrutinize any fasteners which do not bear manufacturer identification markings, particularly when the fastener bears a grade marking.

Copies of the IFI-122 directory are available for $15 from the Industrial Fasteners Institute, 1505 East Ohio Bldg., Cleveland, OH 44114. (216) 248-1482.

Keep computer data inside your building and off power lines

From outside your office industrial saboteurs can obtain your computer data through the electric power lines. To protect this data from leaving the computer and coming out a power line, International Computer Power has developed their RotoPLUS load/line isolator.

The RotoPLUS assures 100% isolation for common mode and transverse mode signal paths. This provides impenetrable security not obtainable through other technologies. **Circle 259**

Contract Manufacturers Show set for West Coast

April 11-13, 1989, the Contract Manufacturers Association will sponsor CME-West in the Los Angeles Convention Center. This will be a sister-show to the annual CME event in Detroit each fall.

Close to 500 exhibitors, representing subcontract manufacturers, OEM suppliers, component manufacturers, contract engineering and custom suppliers will participate. **Circle 75**

PMs sponsor show

The 12th annual Business and Industrial Show of East Tennessee will be held October 11-12 at the Convention/Exhibition Center on the World's Fair site in Knoxville. Sponsored by the East Tennessee Chapter of the Purchasing Management Association, the show will feature distributors, manufacturers and suppliers from eight states.

Admission is free. Pre-registration is not required. Show hours are 11:30 a.m. to 8 p.m.

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by Robert S. Reichard, executive editor

Modest inflation increase ahead

All signs point to a modest increase in inflation in 1989. The accent should be on the word "modest"—for there's still virtually nothing on the horizon to suggest any big price hikes.

The WEFA Group (Wharton Econometrics) puts the increase in overall industrial prices next year at around 4.5%—less than 1% above this year's estimated 3.7% advance. Another encouraging note is that the runup in key raw materials is finally beginning to show some signs of leveling. And this should continue—Wharton predicts smaller-than-1988 advances for both plastic resins and paper. And in nonferrous metals WEFA sees the possibility of a fractional decline for 1989.

Data Resources, Inc. (DRI), in its regular quarterly rundown of 25-30 individual product lines for *PurchasingWorld* magazine readers, tells much the same story. True, next year's prices will increase but most of the boosts should remain in the tolerable range (see accompanying story). Preliminary forecasts for 1990 suggest a similar pattern.

The moderation in both the WEFA and DRI projections are not just wishful thinking—hundreds of equations linking costs, demand and supplies have been used to come up with these results.

A closer look at these econometric forecasts suggests that there are several factors playing a role in holding down future price advances. These include 1) capacity increases in many basic raw materials, 2) somewhat smaller GNP and industrial production gains, and 3) more restrictive monetary and fiscal policies.

Price equations are also factoring in another year of relatively low energy inflation. This can't be underestimated—for over the past two decades all years of double-digit inflation have been preceded by big crude oil price runups.

There is little upward pressure in another big procurement area, too—business equipment and supplies. A new nationwide *PW* survey finds that the majority of those queried—three fourths to be exact—put the price increase next year at 5% or under.

Also reassuring is the lack of any big wage advance. Indeed, unit labor cost increases are expected to average 4% next year.

Last, there's the continuing absence of global inflation. New forecasts suggest that overseas price increases will remain relatively restrained. Thus most 1989 inflation estimates for the free industrialized western nations are put in the 4% range. The dollar seems to be stabilizing, and there seems to be little danger of any jump in import tags.

In short, things don't look bad—despite some price acceleration. In a sense, the inflation outlook should be regarded as quite positive—given the fact that 1989 will mark the seventh consecutive year of business upturn.

Will price averages deceive you?

Price averages could be quite deceiving over the next few years—as industrial product lines zigzag.

Just how much variation can be expected? New price forecasts—provided exclusively for *PurchasingWorld* magazine readers by Data Resources, Inc. (DRI)—tell the story. While the econometric consulting firm sees overall industrial averages rising 5-5.5% annually over the next two years, some sectors could post even larger boosts. And there are even a few declines thrown in to emphasize the variation.

Generally speaking, nonferrous metals and industrial chemicals—both of which jumped substantially this past year—will show the smallest advances. Energy, too, will fare well. On the other hand, some acceleration is seen for capital goods on a combination of strong demand and cost pass-throughs.

Below are DRI's detailed product-by-product projections carrying into the third quarter of 1990:

Price changes into 1990

(Comparison of third quarter pricing)

Product line	1988	1989	1990
Raw materials, energy			
Finished lubricants	8.1	4.6	5.3
Industrial chemicals	9.8	2.7	4.2
Supplies for manufacturing	4.7	4.5	4.6
Metals			
Pressure tubing, seamless carbon	21.9	4.7	3.7
Heavy structural shapes, carbon	18.9	2.8	4.7
Grey iron foundries	3.1	4.9	4.0
Iron & steel	11.7	3.8	4.2
Copper base scrap	9.2	-25.4	7.0
Copper & brass mill shapes	11.1	-5.4	8.0
Titanium sponge	2.0	4.9	5.4
Components			
Rubber belts & belting	2.3	2.4	4.3
Laminated plastic sheets	2.5	2.4	3.4
Corrugated containers	10.7	4.5	4.2
Industrial controls	2.3	3.0	3.4
Linear ICs	-0.1	4.5	4.1
Machine shop products	1.9	5.6	6.8
Construction			
Paint materials	5.3	8.2	5.6
Siding, nonheat treatables	15.3	1.3	1.4
Gypsum products	-6.7	3.8	4.3
Fabricated structural steel	6.2	4.3	6.6
Machinery			
Warm air furnaces	6.1	6.0	3.6
Fans & blowers	3.5	5.8	6.4
Railroad equipment	2.3	5.5	4.8
Capital equipment (non-mfg.)	2.5	4.2	4.1
Capital equipment (mfg.)	4.0	4.9	4.4

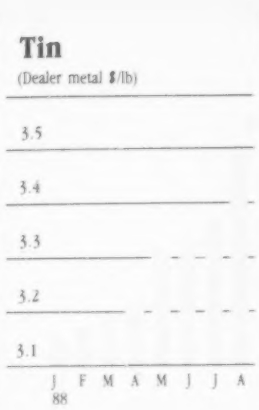
Source: Data Resources, Inc. Cost Forecasting Services

Air freight demand rockets

Demand is booming—with year-to-date revenue ton miles up 18% *vis a vis* compared to 1987 levels. Part of the advance is due to the continuing spurt in air package express shipments which last year zoomed up 33% in terms of actual units. Other factors influencing air freight growth include 1) increased emphasis on maintaining low inventory levels, 2) the availability of more air freight service options (same day, next day, etc.), 3) the increased use of just-in-time programs, 4) the pickup in general business, and 5) a broadening of the perception on when to use air freight.

Reduced ferrochrome availability

Reduced supply is pushing prices up through the roof. While contract quotes remain in the tolerable 71¢/lb range, spot tags have soared over the $1/lb mark. That's more than double the 40¢/lb level of early 1987—a fact that's particularly bothersome to U.S. specialty steel mills who buy more than half of their needs on spot or spot-related markets. Adding to problems are fears of South African supply reliability, low stainless producer inventories, and rising end-use demand (U.S. output of stainless is running about 20% ahead of year-ago levels).



Tightness in tin

Prices have advanced to their highest levels in two years as dealers step up purchases in an increasingly snug market. The tightness is traceable to a combination of factors, including strict export quotas on the part of producing nations, gradually improving demand, and a decline in above-ground stocks. The latter, once as high as 80,000 metric tons, have dropped to approximately 45,000 tons. Best bet: Continued inching up, with dealer metal moving as high as $3.70-3.80/lb by year-end.

Zinc stocks low

Prices have zoomed up to 69¢/lb—a hefty 27¢/lb above the 42¢ low prevailing last fall. Behind the rise: A combination of tight supply and demand which on a Free World basis is running close to 4% ahead of 1987. One result: Zinc stocks are now at their lowest levels in 15 years.

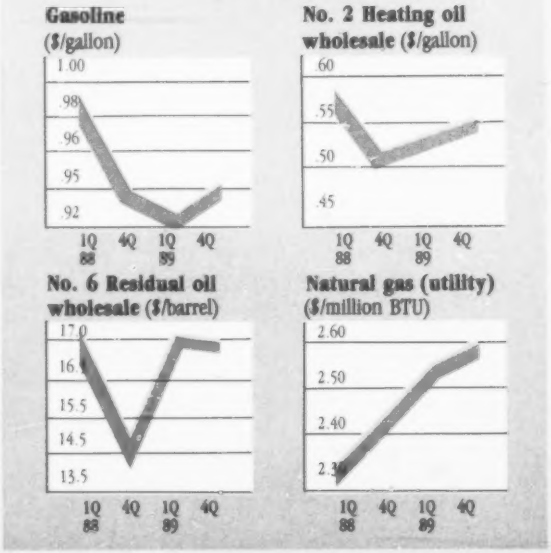
Energy prices no problem

No real problems are anticipated for near-term energy prices. New Department of Energy forecasts point to the usual seasonal swings (see chart). But 1989 prices in most energy sectors won't end up much ahead of 1988 4Q levels—and they'll be considerably lower than projected just three short months ago.

One key reason: new forecasts are predicated on a downgraded crude oil price base. Three months ago, the late 1989 crude quote was put in the $18/barrel range. Now it's down near $17/barrel—a significant 5.5% downward revision—one that reflects both the recent sharp crude oil tumble and OPEC oil production rates.

- **Gasoline:** Price averages should decline by only 2¢/gallon in 1988—as refiners' margins are beefed up. And next year when crude oil is projected to stabilize, a small 2¢/gallon average increase is anticipated.
- **Heating oil:** Prices should hold relatively stable this year. As for 1989, look for a small 1¢/gallon boost.
- **Residual oil:** Thanks to above-normal inventories, retail tags dropped nearly $2/barrel earlier this year. But seasonal influences could bring quotes up to late 1987 levels again by early next year. And for all of 1989 an advance of near 13% is now expected.
- **Natural gas:** With uncertainties over FERC Rule 500 gone, spot prices have begun to decrease from early 1988 highs. But look for some bounceback next year when averages are expected to rise about 5%.
- **Electricity:** Residential rates will fall fractionally this year. But in 1989, when all fossil fuels are expected to rise, prices could edge up about 3.5%.

Energy tags through 1989



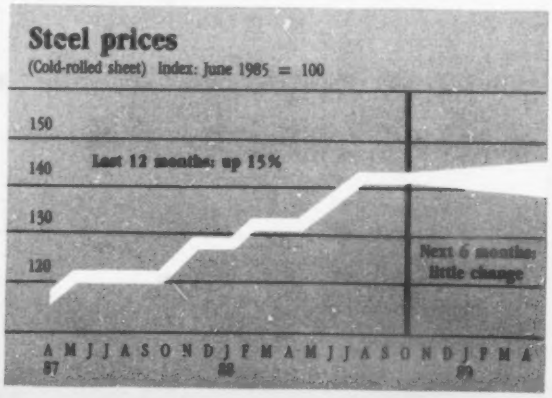
Steel prices slacken

CURRENT SITUATION: Price advances seem to be slowing slightly. A 5% increase in carbon sheet products has been postponed to the beginning of 1989. And stainless cut plate producers have partially pulled back on boosts announced in August. But tin plate and tool steels have just been hit with new hikes. Surcharges of $5-20/ton have been announced for zinc. **Demand is tapering off**—domestic shipments in the last quarter were down to 20 million tons—off about one million from the first and second quarter pace.

DEMAND: The current slowdown will persist into the 4Q when 19 million tons should clear the market. **The fast 1988 start should push the yearly total into the 81 million ton range**—up nearly 6% from last year. 1989 shipments could slip into the 76-77 million ton range, as consumer durable sales (notably cars and appliances) and construction flatten out—and 2 million tons is pared off inventory levels.

SUPPLY: Recent tightness should slowly give way to better balance and shorter leadtimes by early 1989. Utilization rates in 1989 will top the 80% level—six points under this year's 86% estimate. Imports, despite their high tags, should also contribute to overall availability. **This year 21 million tons could enter the U.S.** Another 19-20 million tons (21% of the overall market) is seen for 1989.

PRICE OUTLOOK: Less-than-sensational demand is likely to put a damper on near-term increases. In the upcoming 4Q only a fractional overall advance is anticipated. Spot prices, viewed separately, could edge lower. An expected slack in demands could help offset the carbon sheet boost scheduled for early 1989. One sign of a changing market: **Automakers new contracts call for only 2-3% price increases for the 1989 model year.** This isn't likely to go unnoticed by other buyers who last year signed for 5-8% increases.


Steel prices
(Cold-rolled sheet) Index: June 1985 = 100
150
140
130
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Last 12 months: up 15%
Next 6 months: little change
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88
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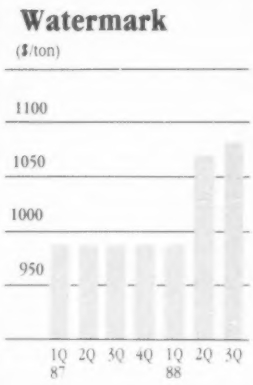


Paper prices still going up

The price trend is still up—with increases recently recorded in several printing and writing grades (including uncoated book, coated magazine, and watermarked bond) and in corrugated containers. But the latter is now at the equivalent of a $410/ton linerboard level—so little further increase is seen here until linerboard goes up again. When that will occur is anybody's guess. That's in contrast to bleached board where new increases are still being posted. Paper and paper product tags are likely to continue edging up—with averages next year expected to run 1-2% ahead of the 4-5% general inflation rate.

Lead adds a little

Add another 2¢/lb onto the producer quote—bringing the going level up to 38¢/lb. All in all, prices have advanced 4¢/lb since spring—though they are still under the peak 42¢/lb level prevailing late last year. Behind today's buoyant market: Consistently strong orders from battery makers, snug inventories—and even some delivery delays as both primary and secondary producers operate at close to full-capacity levels. Global use is up, too—with year-to-date totals running better than 3% ahead of 1987.

Used PCs hit market

Used PCs could be the answer for some cash-strapped buyers—or for those who don't need the newest technology. Hundreds of thousands of these second-hand machines are now hitting the market each year—and when they are resold they often can be had for as little as 30% of the original prices. Most of these used PCs are pretty reliable, too. Indeed, aside from their hard-disk drives which can readily be replaced, PCs seldom break down.

Aluminum rates high

High (mid-to upper 90s) global operating rates tell the story. This has been the prime mover behind the big runup in ingot (to over $1.25/lb) And many fabricated products have also moved up significantly over the past few months. On the other hand, pro-

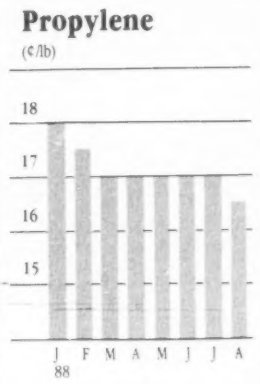
ducers are moving cautiously in some competitive areas like can stock. Next year should see a leveling off—though ingot should hold at well above the $1/lb level through the first quarter. There should be enough supply to go around, and more is in the works. Canada, alone, is contemplating big new capacity jumps—as much as 50% if plans for five new greenfield sites materialize.

Keyboards available overnight

Look for prices to fall over the next few quarters—as more foreign suppliers jump into the market. As such, standard keyboards are available almost on an overnight basis. Prices, which were off 10% in the first eight months of the year, are beginning to fall again—with Honeywell just announcing reductions of 8-15%. Generally speaking, Taiwan and South Korea still offer the best buys—but warranties by these producers are generally a lot skimpier than those offered by other suppliers.

Propylene prices drop

This key chemical building block is bucking the trend to sharply higher prices. Indeed, the chemical grade which started the year at 18¢/lb has now dropped to only 16.5¢/lb. Even the polymer grade (at 20.5¢/lb) is holding steady—despite strong demand from polypropylene. Reason: Unlike other feedstocks, markets here have been fairly well balanced. Moreover, today's balance could well turn into some excess by next year.



Squeeze on magnesium

Figure on current supply snugness continuing for at least another 3-6 months. Behind the squeeze: Increasing demand from both the aluminum and die cast industries—increases which have dropped inventories by half since the beginning of the year (to only a 1.4 month supply). In any case, prices have moved up on a broad front—first in ingot (up 5¢/lb in June) and more recently in die cast alloy where the AZ91B grade has jumped 5¢/lb—bringing tags up into the $1.38/lb range.

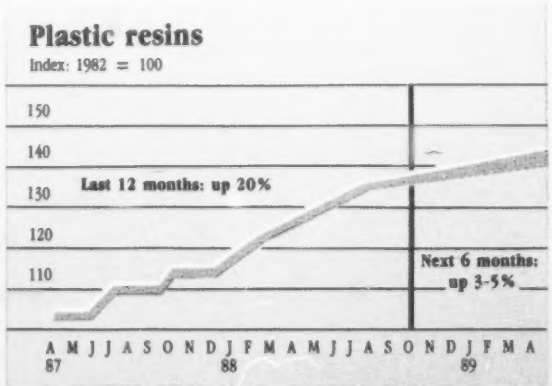
Plastic production tames prices

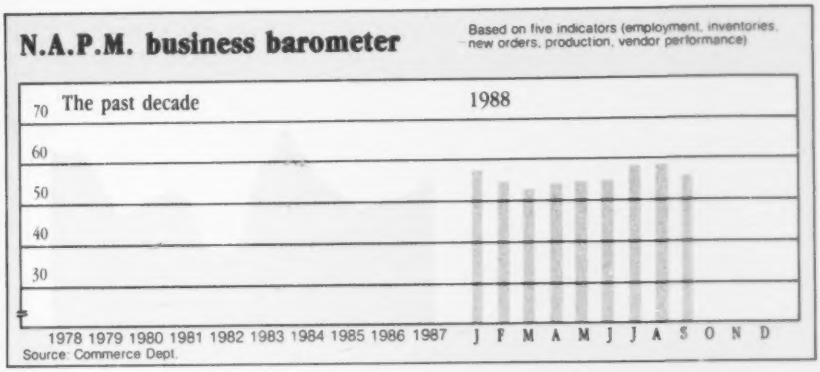
CURRENT SITUATION: The big price runup since 1986 has added 35% to average plastic resin prices. Some of the more volatile volume thermoplastics have posted much larger advances. Examples: Low-density polyethylene (LDPE) 78%, high-density polyethylene (HDPE) 70%, polypropylene (PP) 62%, polystyrene (PS) 67%, polyvinyl chloride (PVC) 42%, and ABS 63%. **Behind these huge increases:** 1) producer price catchups from previously depressed levels, 2) big increases in ethylene, propylene, styrene, and other feedstock costs, 3) strong demand gains, and 4) a high (near 95%) overall operating rate.

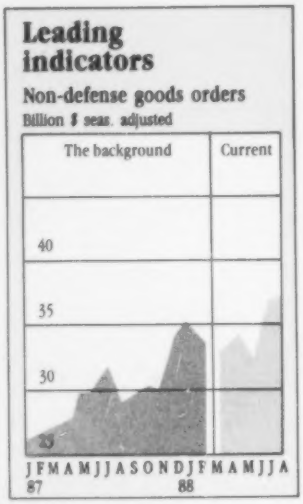
DEMAND: While ordering has calmed down, earlier momentum should push overall totals up 5-5.5% this year PP should lead the pack in thermoplastics—with an 8% boost. Other expected 1988 gains: HDPE (7%), polystyrene (5%), LDPE and ABS resins (each about 4%), and PVC (3%). Preliminary indications suggest smaller increases of 2-3% for 1989.

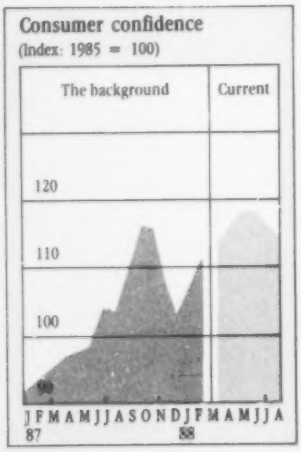
SUPPLY: While things are generally snug, there's new capacity building in the resin and feedstock areas. Next year about 8% should be added to overall thermoplastic production potential—far more than the 2-3% projected increase in demand. Upshot: Operating rates should come down after six years of increases. **Expect an 88-90% level** with ABS sporting a somewhat higher rate. In 1990 an 8% supply increase is expected, and operating rate averages could drop into the mid-80s range—or even lower if a recession sets in.

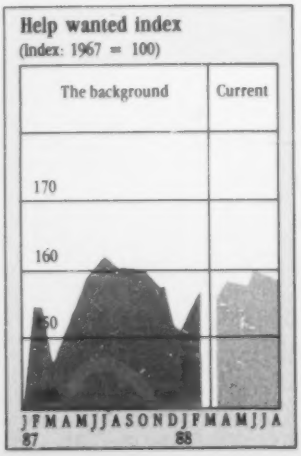
PRICE OUTLOOK: Relatively modest near-term advances are anticipated—with leveling in some volume resins like polypropylene and polystyrene. Only a 3-5% increase is seen from now through next spring. **This, in turn, suggests a 6-8% increase for overall 1989.**




N.A.P.M. business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
70
60
50
40
30
The past decade
1988
1978 1979 1980 1981 1982 1983 1984 1985 1986 1987
J F M A M J J A S O N D
Source: Commerce Dept.







KEY ECONOMIC TRENDS

Growth rate slows

A somewhat slower growth rate seems to be shaping up for the next few quarters.

Chalk it up to higher interest rates and their impact on such areas as construction, a leveling off in Federal purchases, and somewhat more cautious consumer buying attitudes.

But these factors—while slowing down growth—won't be enough to halt the business upturn (now almost six years old). The exceptional strength in exports and capital spending virtually guarantees further GNP and production gains.

Both these areas have advanced considerably over the past year, and indications are that they will continue into 1989.

In capital spending, the fundamentals are already in place for more solid increases. Non-defense capital goods orders so far this year are running a solid 18% above comparable 1987 levels (see chart).

The bullishness here is further confirmed by an even more sensitive capital goods indicator: Machine tool orders. At latest report, year-to-date totals were leading a year ago by 80%.

The export picture is equally bullish. Real (corrected for inflation) exports so far this year are up nearly 20%—with much of the impetus coming from overseas machinery and equipment purchases.

This has helped improve the trade balance. One recent forecast puts the real deficit at only $60-70 billion at annual rate in the upcoming 4Q—down from the $110 and $90 billion figures of the first and second quarters.

But as suggested earlier, other parts of the economy may be ready to take a breather. Consumer confidence, while still high, is down from late spring peaks (see chart).

Part of this may reflect somewhat smaller gains that are expected for disposable personal income. But another factor could be the high degree of debt service payments that have accumulated in recent years. Plans to buy appliances and new cars are down from recent highs. The latter has prompted Detroit to tone down its 1989 forecasts. They are now predicting sales of about 15 million cars and trucks—off a bit from this year's estimated 15.6 million level.

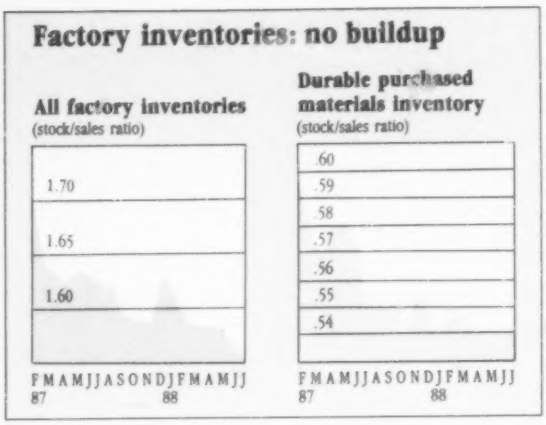
Inventories still "lay low"

"Keep 'em lean" is still the order of the day as far as inventories are concerned.

Normally at this stage of a business upturn, stocks become a bit top-heavy—leading to the traditional inventory correction.

Not so this time around. Indeed, factory stock/sales ratios—both overall and in purchased materials (the PMs bailiwick)—have actually continued to fall. This in turn has resulted in all-time lows for these key economic indicators (see chart).

There are still a few specific areas where inventories could be reduced. Some buyers and distributors, for example, talk about



steel cutbacks. And in the consumer sphere, lackluster buying in recent months has made for some inventory buildup—most notably in the appliance, home goods, and apparel fields. But these are exceptions to the general trend toward lower inventories.

Why this general downdrift? It's probably due to a combination of factors. Certainly a good part can be traced to the gradual implementation of just-in-time delivery techniques. Other things being equal, this means less inventory in the pipeline at any given moment.

But there are other factors at work. There's been less fear of shortages. Sure, some double ordering has cropped up in hard-to-get items like electronic parts. But by and large, nobody has panicked. The hedging of previous upturns is now conspicuous by its absence.

Two other inventory-restraining factors have also played a role—namely better forecasting of near-term production requirements and topside pressure to keep stocks down in a period of relatively high interest rates.

But whatever the reason or reasons, most economists see today's low stock/sales ratios as an extremely positive sign—one that virtually guarantees that incoming orders will quickly be translated into new production and a higher GNP.

On the other hand, 15 million is not a bad number. In fact, it's quite impressive by historical standards—sparking the sixth consecutive year in which sales will top the 15 million unit mark.

Employment statistics also suggest a flattening-out in overall economic activity. Note the plateauing in new job opportunities (see chart)—which is confirmed by the steady jobless rate reported over the past few months.

But it should be emphasized that there are no signs of an overall downturn. Indeed, further gains seem all but assured for the next few quarters. The NAPM business barometer (a time-tested leading indicator) remains above the neutral 50 mark.

On an industry-by-industry basis, best showings will be in the machinery and equipment sector. Add in improved exports—and these two areas of the economy will probably account for 50% of real GNP growth in the months ahead.

The paper, plastics, and chemicals areas should remain quite strong. But scattered weaknesses could develop in such sectors as mining, steel, and autos, and eventually housing and appliances.

CURRENT PRICES

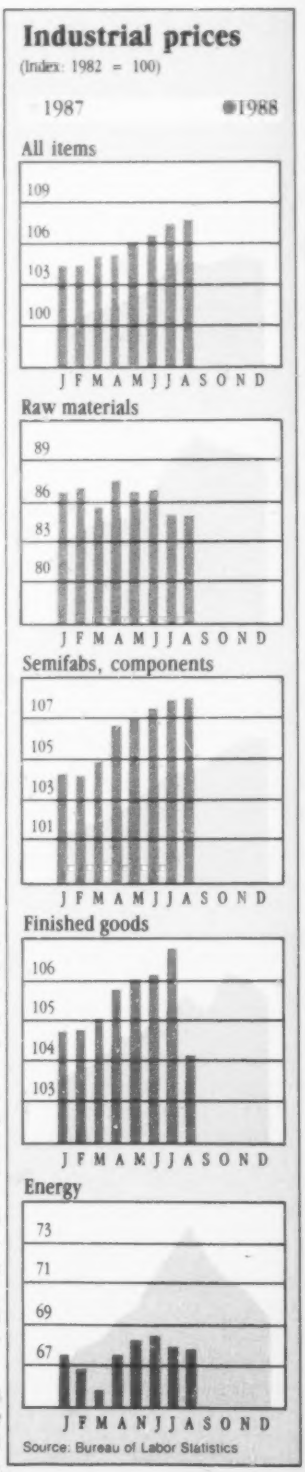
Industrial prices up steadily

Chalk up another month of slow steady rise in industrial prices. The latest advance (about 4.8% at an annual rate) pretty much repeats the pattern of recent months—with little sign of any overall acceleration or deceleration.

Leading the uptrend this time around was the chemical and allied product category. Plastic resins jumped another 2.2% over the month—bringing prices more than 21% ahead of a year earlier (see table). And organic chemicals weren't far behind, as a 1.4% advance pushed quotes close to 18% ahead of a year ago.

Energy prices also moved up a bit. But there were decreases as well as increases here. And more important, averages in this sector still remain some 8% under year-ago readings.

On the energy upside over the past month were natural gas, gasoline, and residual fuel. But declines



in home heating oil, liquid petroleum gas, jet and diesel fuels, and crude oil helped blunt the impact.

Metals, too, seem to be a two-way street these days. Thus while steel, aluminum, lead and zinc all moved higher, declines were reported in copper and brass mill shape, cadmium, nonferrous scrap and nonferrous ores.

On the other hand, machinery items—sparked by sharply improved demand—climbed at a slightly faster pace than in recent spring and summer months. Higher postings, for example, were noted for material handling equipment, pumps and compressors, internal combustion engines, and metal-cutting machine tools.

All in all, government price watchers expect about a 3% increase in equipment for the year.

This month's breakdown

Index: 1982 = 100

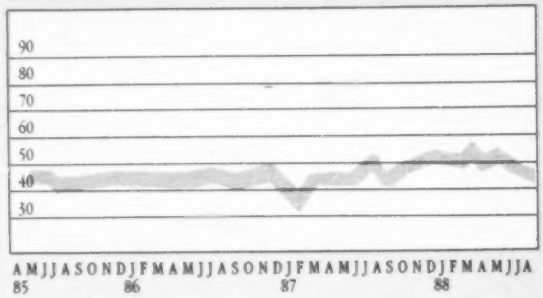
	Latest level (August)	% change from: Month ago	Year ago
Bearings	113.1	0.8	4.7
Bolts, nuts, etc.	107.0	0.3	3.7
Chemicals, inorganic	102.5	0.5	8.1
Chemicals, organic	112.4	1.4	17.9
Concrete products	110.2	0.2	0.8
Corrugated cartons	111.2	0.0	10.9
Cutting tools, small	107.0	0.0	0.8
Electric lamps (bulbs)	122.2	0.0	−0.4
Electronic components	118.2	0.4	2.7
Fans and blowers	113.4	−0.6	2.3
Foundry and forge products	110.2	0.1	4.5
Fuel oil (residual)	39.6	1.0	−35.1
Furniture, commercial	125.0	0.2	5.1
Gasoline	62.2	2.1	−3.1
Glass, flat	110.0	0.5	2.3
Glass containers	112.2	0.0	−0.6
Gypsum products	108.0	−0.3	−9.6
Hand tools	120.8	0.8	3.8
Hand tools, power driven	112.0	0.4	2.8
Industrial furnaces	121.5	0.4	6.2
Integrating and measuring instruments	114.2	0.2	0.4
Internal combustion engines	111.9	0.6	2.1
Lubricating oil	104.8	−1.6	7.7
Lumber millwork	122.7	0.4	3.3
Material handling equipment	108.0	0.4	3.7
Metal containers	110.3	0.6	1.1
Metal mill shapes (nonferrous)	131.0	0.2	22.3
Metal tanks	106.6	1.1	9.8
Motors and generators	121.9	0.3	5.5
Motor trucks	124.2	0.1	2.9
Office and store equipment	107.6	0.5	2.2
Paperboard	134.5	0.1	12.3
Paper boxes and shipping containers	124.8	0.2	8.3
Paper office supplies	115.3	0.3	7.4
Paint	112.8	0.1	3.8
Plastic resins	137.0	2.2	21.1
Precision measuring tools	121.4	0.0	4.3
Pumps and compressors	109.6	0.5	4.3
Refractories	114.0	0.0	2.9
Rubber belts and belting	107.2	1.5	3.6
Scales and balances	105.9	0.2	2.1
Steel products	111.9	0.6	10.0
Switchgear	113.4	0.1	2.7
Textiles, synthetic fibers	97.8	0.1	6.7
Textiles, gray fabrics	115.0	0.1	6.6
Tires and tubes	95.7	0.4	5.0
Transformers and power regulators	109.8	1.1	1.2
Welding equipment	118.4	0.2	6.9
Wire and cable	126.2	−0.7	17.4

NAPM procurement trends

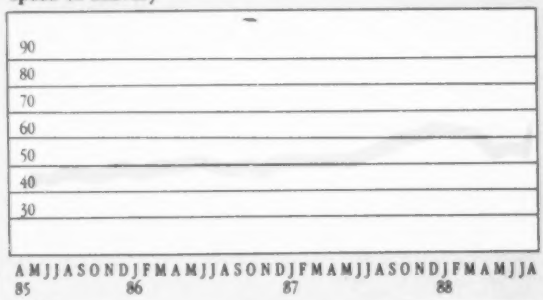
(seasonally adjusted diffusion indexes)

An index where 50 is defined as the neutral level, to the extent a reading is above 50, it represents an expansionary tendency. More particularly, rising inventory prices, and new orders are seen as positive signs of economic growth. A trend toward slower deliveries is similarly interpreted.

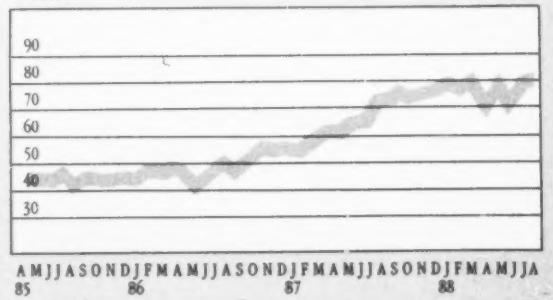
Inventories



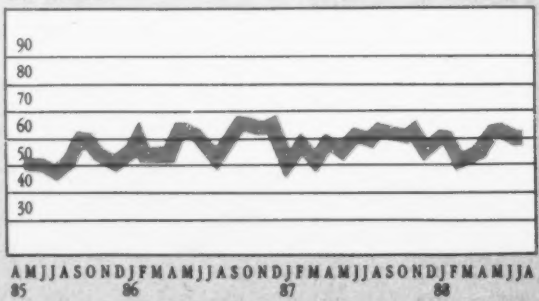
Speed of delivery



Prices



New orders



Office equipment boosts modest

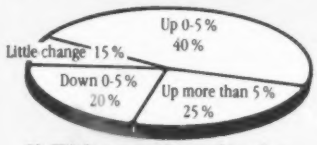
Despite another year of increasing demand, office equipment price boosts have remained quite modest. More important, they're expected to remain so into 1989.

So say the majority of purchasing executives responding to a new *PurchasingWorld* magazine nationwide survey. Their general feeling: Continuing strong competition and technological innovations will limit overall boosts for most PMs to 5% or less over the next 12 months (see chart).

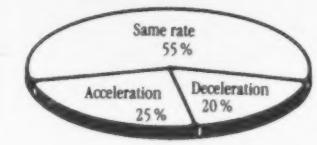
That's not to say that all product lines will fare equally well. Most upward pressure on prices is seen for office furniture and office supplies areas where hikes in basic raw material costs are pressing on profit margins. Some upward drift, however, is also anticipated for copiers and telecommunications equipment.

Office equipment & supply price trends:

1) Price boosts will be modest



2) With no real acceleration vis-a-vis last year



Telecom up just 3%

Increases suggested for the latter area, however, are quite moderate. It would seem to indicate a repeat of the last 12 months when telecommunications prices, as monitored by the Computer and Business Equipment Manufacturing Association (CBEMA), rose by less than 3%.

Even more encouraging—at least from the buyers' point of view—is the little change expected for electronic typewriters. And when it comes to printers, personal computer hardware and PC software, the consensus is that prices are more likely to edge lower than higher.

Mainframes, too, are facing more competition. Witness Amdahl's recent decision to cut prices 10-14% in response to the introduction of new IBM models.

There is also downward pressure on minicomputers. This market segment, buyers say, is losing sales to cheaper personal desktop models whose power and sophistication have grown significantly.

Recent increases in prices in all lines of business equipment also have to be taken with a couple grains of salt. New copier models may cost a bit more, but they are faster and easier to use. Also it's no secret that discounts of 20-30% are widely available on even single machine purchases.

Typewriters discounted too

While on the subject of discounting, PMs report 20-25% is generally being shaved off typewriters—with even bigger off-list buys available on laser printers. And facsimile machines generally run about 20% under official list levels.

A few buyers also feel fax lists should begin to head lower—as backed-up demand is gradually satisfied. Some add that the days of the $300-500 "personal" fax may only be a few years off.

A new Machinery and Allied Product Institute (MAPI) study finds that information-processing equipment which was only 5.6% of nonresidential producers' durable equipment after World War II, now accounts for over 44% of the total.

This equipment revolution, however, has created headaches as well as pluses. Thus the new *PW* survey finds that growth and rapidly advancing technology have raised problems of compatibility and obsolescence.

Some allied problems cited include 1) poor servicing, 2) lack of standardization and difficulties encountered in interfacing old and new technology, 3) the training and retraining of employees and 4) product evaluation.

One purchasing manager observes, "Our biggest problem is that we purchase so little office equipment that we don't have the time, the staff, or the incentive to become experts in these areas."

Over half lease equipment

But buyers are taking steps to deal with all these headaches. A fair number are leasing rather than buying outright. Indeed, more than half say they are leasing some of their sophisticated business equipment—thereby reducing the evaluation and obsolescence problems.

The service problem is also being tackled—with some PMs opting for maintenance cost management programs whereby maintenance firms take care of all their service requirements. Several other buyers say they negotiate service contracts with vendors at the time of order.

This negotiation, of course, generally covers more than just services. One buyer insists on a minimum of three sources before making any major equipment purchase decision. Another tells of weighing the offers of local suppliers with those of large mail-order vendors—and then taking the best deal.

Equally important is the changing role of purchasing in overall office equipment procurement strategy. The new survey finds that nine out of ten PMs are now an integral part of the equipment purchasing decision team (or even the primary decision-maker). That's far more than suggested by earlier *PW* surveys when everybody was buying what he or she wanted—leading to what one PM called "an unholy mess."

As one purchasing executive sums it up: "It's now mandatory that someone coordinate and evaluate buys in this complex and ever-changing area. What better place than the purchasing department?"

PW

Will steel take a break?

Steel activity may be heading for a modest breather.

An impressive 35% of all buyers queried by the National Association of Purchasing Management (NAPM), for example, now see a decrease in their incoming metal shipments over the next three months—far above the 11% who anticipate some increase. That's a 3:1 decrease/increase ratio—the largest such rate in two years.

The latest Steel Service Center Institute (SSCI) survey suggests a similar feeling on the part of distributors—though those anticipating declines in incoming orders (20%) outnumber those anticipating increases (16%) by a considerably smaller amount.

Inventory retrenchment also seems to be the order of the day. On the buyer front, for instance, many more purchasing managers now expect to cut than add to their stocks over the next six months.

Not surprising, 77% of SSCI members now say their inventory levels are too high compared to current shipping levels—with only 2% feeling that they're too low. That's the biggest such "too high" percentage in several years—something that suggests some near-term inventory declines.

According to Andrew G. Sharkey, SSCI president, most of the inventory increase took place in carbon, carbon flat rolled and stainless—where buildups overshadowed some modest declines in other product categories.

But, adds Sharkey, some of this increase may be deceptive—reflecting the summer demand slowdown that is just now ending. In any event, he expects a significant improvement in the months' supply ratio when the next round of SSCI numbers are released.

Prices are yet another area that distributors are watching closely. Some 45% of surveyed SSCI members, for example, still anticipate increases in their replacement costs over the next six months. The only consolation: This is a bit less than in recent months.

These price estimates are somewhat less encouraging than those suggested in *PurchasingWorld* magazine's own steel evaluation. Based on our own supply-demand-cost analysis, we see little change in overall prices through early 1989.

One possible reason for the more pessimistic buyer and distributor evaluations could be the absence of overseas price bargains. Distributors report no price breaks in stainless—with only 5% noting some small (6-10%) advantage in imported carbon grades.

Buyers tell pretty much the same story as far as import prices are concerned. Less than one out of five are now saving by going the import route—and again all of those respondents dub the advantage as "slight."

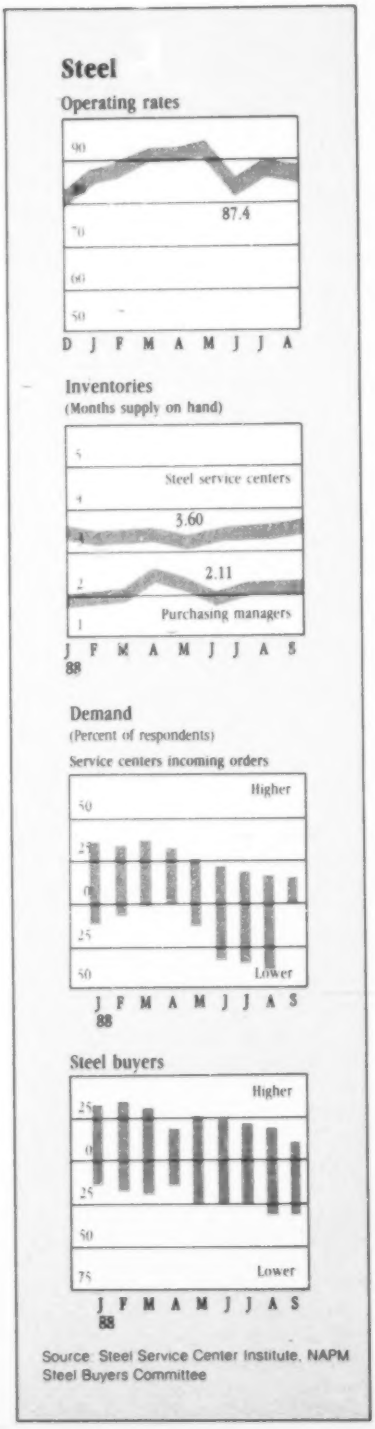
On a rosier note, these same steel buyers note a slight improvement in the availability situation. Only 67% said they were worried about supplies over the next six months—substantially under the 77% reading of the previous two months.

Biggest improvement is in the diminution of concern about plate, hot-rolled sheet and cold-rolled sheet. This more than offsets a modest increase in shortage expectations for coated sheet. ***PW***

Import prices
(Compared to domestic)

Steel Buyers
ABOVE 73%
SAME 8%
SLIGHTLY BELOW 19%
SUBSTANTIALLY BELOW 0%

Service centers (carbon)
ABOVE 2%
SAME 93%
5-10% BELOW 2%
10-20% BELOW 0%
OVER 20% BELOW 0%

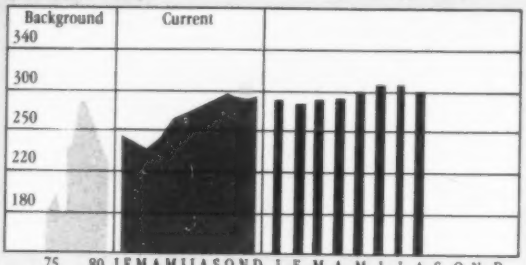


Source: Steel Service Center Institute, NAPM Steel Buyers Committee

Raw material price barometer

(Index 1967 = 100)

Latest month 310.9
Month before 309.0
Year ago 288.3



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	16.50	16.50	16.50
Steel, bars, Pitts., cwt.	16.50	16.50	16.50
Steel, bars, C.R., Pitts., cwt.	19.45	19.45	19.45
Steel, plates, Pitts., cwt.	22.75	22.75	19.75
Steel, plates, H.R., Pitts., cwt.	22.75	22.75	19.75
Steel, sheets, C.R., Detroit, cwt.	28.15	28.15	26.90
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	1.26	1.21	.780
Antimony, N.Y., dealer, lb.	1.05	.99	1.12
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.65
Brass, red, 85%, [sheet], lb.	1.71	1.60	1.45
Brass, yellow, [sheet], lb	1.66	1.55	1.40
Cadmium, N.Y., dealer, lb.	7.20	8.00	2.25
Copper, electrolytic, wire bars, refd., lb.	1.07	.96	.81
Copper sheet, over 24 in., lb.	1.79	1.68	1.54
Lead, common, N.Y., lb.	.38	.36	.42
Magnesium, pig ingot, [99.8%], lb.	1.58	1.58	1.53
Mercury, 20 fl. lots, N.Y., fl.	360.00	380.00	330.00
Molybdenum, oxide, dealer, lb.	3.48	3.37	3.02
Nickel, cathode, dealer, lb.	6.00	6.60	2.50
Platinum, dealer, oz.	528.00	534.00	600.00
Silver, N.Y., oz.	6.54	6.68	7.56
Tin, N.Y., dealer, lb	3.49	3.37	3.17
Zinc, Prime West, East St. Louis, lb.	.69	.66	.43
Zinc, die casting alloy, No. 3, lb.	.765	.735	.485
PAPER			
Uncoated book #3 offset, ton	955.00	920.00	860.00
Watermarked bond, ton	1080.00	1070.00	985.00
Gummed sealing tape, carton	17.78	17.76	17.14
Grocery sacks, ton	460.00	455.00	390.00
Solid bleached paperboard, ton	685.00	685.00	620.00
Kraft linerboard, 42 lb., unbleached, ton	410.00	410.00	350.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.284	.281	.236
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.20	1.20	1.22
Cotton middling, 1", N.Y., lb.	.505	.604	.682
Printcloth, 48", 80x80, N.Y., spot, yd.	.500	.520	.710
Army duck, 37", 13 oz., yd.	1.510	1.510	1.495
Blended printcloth, 64", 78x54, yd.	.68	.72	.92
20s combed yarns	1.96	1.96	2.03
Wool 64s, Staple, lb.	4.50	4.50	3.00
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	91.00	91.00	105.00
Benzene, petroleum, tanks, Houston, gal.	1.08	1.11	.93
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.55	.55	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.735	.735	.810
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.58	.58	.32
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.350	.350	.295
Polyethylene resin, low density liner film grade (market place), lb.	.515	.515	.345
Polypropylene, homopolymer grade (market price), lb.	.525	.525	.440
Polystyrene, general purpose grade (market price), lb.	.600	.600	.520
Polyvinyl chloride, pipe grade (market price), lb.	.44	.42	.36
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.450	.450	.380
Sulfur, crude, ex-terminal, Tampa, Fla., lt.	132.00	132.00	127.50
Sulfuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.87	.87	.77
Xylene tanks, gal.	.91	.91	.78
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	336.00	336.75	329.60
Lumber 2x2 pine, mbf, cl	318.45	329.45	335.95
Plywood, plyform, ¾", msf, cl	576.95	578.79	580.65
Plywood, ⅜", msf, cl	388.35	399.05	385.95
Cement, bulk, ton, tl	65.48	65.45	64.25
Sand, ton, cl	7.87	7.67	7.21
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd	49.01	48.01	49.08
Crushed stone, 1½", ton, cl	7.41	8.56	8.30
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.92	0.90	0.90
Gypsum sheathing, ½"x1"x8", msf, tl	228.43	228.43	228.23
Brick, common, per thousand, tl	229.22	218.88	198.26
Asphalt paving, AC-20	116.70	120.78	137.59
Concrete sewer pipe, 12", prem. joint, per foot, cl	6.98	6.98	7.50
FUELS			
Crude oil (W. Tex Int Cush), bbl.	14.25	15.70	18.95
Diesel (reseller rack, Chi), gal.	.4480	.4450	N.A.
Fuel oil No. 2 (N.Y.), gal.	.4210	.4375	.5085
Fuel oil No. 2 (Gulf spot), gal.	.4050	.4125	N.A.
Fuel oil No. 6 (N.Y.) contract cargo, bbl.	16.00	16.50	N.A.
Gasoline (reg lded NY), gal.	.4650	.4910	.4975
Gasoline (reg unlded NY), gal.	.4450	.4700	.4955
Kerosene (reseller rack, Chi), gal.	.4925	.4935	N.A.
Propane (Mt. Belvieu, Tex), gal.	.2050	.2100	.2450
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	117.00	120.00	94.00
Steel, No. 1 hvy., dlvd., Chi., ton	115.00	120.00	90.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.920	.885	.730
Copper, No. 2, East, wholesale buy, dlvd., lb.	.830	.760	.650
Brass, red, East, wholesale buy, dlvd., lb.	.880	.815	.690
Brass, yellow, East, wholesale buy, dlvd., lb.	.470	.470	.365
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.665	.650	.495
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.750	.730	.560
Zinc, old, East, wholesale buy, dlvd., lb.	.24	.24	.20
Lead, clean solids, East, wholesale buy, dlvd., lb.	.225	.225	.275
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	25.00	25.00	40.00
Paper, old corrug. box, dlr., N.Y., ton	5.00	10.00	25.00
Old newspapers, Chi., ton	10.00	10.00	N.A.
Old white ledger, Chi., ton	85.00	85.00	N.A.

[Sources: Metals Week, American Metal Market, Engineering News-Record (20-city averages), Wall Street Journal, Journal of Commerce, Chemical Marketing Reporter.]